

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lewis County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Lewis County was created on December 19, 1845, under the control of the Provisional Government of Oregon and operates under the laws of the state of Washington applicable to a Third Class County. Lewis County is a general purpose government and provides the following services according to the Constitution and laws of the State of Washington: public safety, road improvement, parks and recreation, judicial administration, health and social services, senior services, and general administrative services.

Lewis County is governed by an elected board of three county commissioners. These financial statements include the financial position and results of operations for all fund types and its component units. The blended component unit, although a legally separate entity is, in substance, part of the County's operations and so data from this unit is combined with data of the primary government. The blended component unit has a December 31 year-end.

Blended Component Unit

The Solid Waste Disposal District No. 1 of Lewis County is a quasi-municipal corporation, and an independent taxing authority and district, which is responsible for implementation of a comprehensive solid waste management plan for the County and other incorporated cities and towns within the county. In order to implement the plan and related goals, the County and the incorporated cities and towns within the county have agreed, through an interlocal agreement to the formation of the District and transfer of certain responsibilities to the District. Among obligations transferred to the District is the obligation to make funds available to the Centralia Landfill Closure Group for the closure, post-closure and remediation activities at the Centralia Landfill (which is operated by the City of Centralia). The District has the authority to provide for disposal of solid wastes within the boundaries of Lewis County. The District is governed by a three-member board, which consists of the three county commissioners. The District is reported as an enterprise fund.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is not to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function of segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund (Current Expense) is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road Fund accounts for the design, construction and maintenance of county roads.

The Capital Facilities Plan Fund is used to account for the ½ of 1% real estate excise tax to be used to finance capital improvements and capital projects including debt service for the capital facilities plan.

The government reports the following major proprietary fund:

The Solid Waste Disposal District Fund is used to account for activity of Lewis County Solid Waste Disposal District No. 1 and operation of the solid waste transfer station in Centralia.

Additionally, the government reports the following fund types:

Internal service funds account for operations that provide goods and services to other departments or funds of the county or to other government units on a cost-reimbursement basis. The County's internal service funds include the following intergovernmental services: equipment rental, risk management, pits and quarries, facilities, county insurance and information services.

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The agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of the following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgetary Information

1. Scope of Budget

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year end. Annual budgets are adopted by the County's legislative authority (board of county commissioners BOCC) at the fund level, except in the general fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level.

Appropriations for all funds lapse at year end.

The County does not employ encumbrance accounting.

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2. Adoption of the Original Budget

The County's budget is adopted according to the procedures mandated by Washington State law in the Revised Code of Washington (RCW) title/chapter 36.40. After public hearings, the 2009 budget was adopted by the board of county commissioners on Monday, December 1, 2009.

3. Amending the Budget

The budget, as adopted, constitutes the legal authority for expenditures. Budgets are reported according to Generally Accepted Accounting Principles (GAAP). Any revisions that alter the total expenditures of a fund or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the county commission.

When the government determines that it is in the best interest of the county to increase or decrease the appropriation for a particular fund or department, it may do so by resolution approved by a simple majority after holding one public hearing.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information for the general and major funds. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

4. Excess of Expenditures Over Appropriations

During the current year there were no instances of overspending in the General Fund or Special Revenue Funds.

5. Deficit Fund Equity

During the current year one Special Revenue Fund incurred a deficit fund balance. The Flood Authority Fund 122 deficit of \$15,853 was due to unanticipated accrued expenditures. The Flood Authority is lead agency for a multi-jurisdictional committee and appointed by the Washington State Legislature.

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E. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The government pools cash resources of its various funds for the purpose of investing all temporary cash surpluses. At December 31, 2009, the treasurer was holding \$10,570,853 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. Income on pooled investments is allocated pursuant to county resolution no. 85-95. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and summarized by fund type in the combined balance sheet.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2009 were approximately \$2,268,766.

For purposes of the statement of cash flows, the proprietary fund types considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents, except for certificates of deposit and deposits with fiscal agents.

2. Investments

Investments for the government are reported at fair value. The State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares (See Deposits and Investments Note No. 4).

3. Receivables

Taxes receivable consist of property taxes and related interest and penalties (See Property Taxes Note No. 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2009, \$5,928 of special assessments receivable were delinquent.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

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4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund loans receivable/payable” or “advance to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” A separate schedule of interfund loans receivable and payable is furnished in Note 14 – Interfund Balances and Transfers.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption. All inventories are valued at cost using the first-in/first-out (FIFO) method, which approximates the market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories in proprietary funds are valued at cost by the weighted average method. The average cost is recorded as an expense at the time items are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Assets and Liabilities

These accounts contain resources for self-insurance programs held in internal service funds. In the internal service funds, restricted cash and investments at year-end were:

Fund	Cash	Investments
County Insurance	-	397,671

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements for amounts greater than \$50,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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Property, plant, and equipment of the primary government, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Autos, Computers, Office Equipment	3 - 7
Heavy Equipment	8 -20
Buildings, Land Improvements	40
Infrastructure	15 - 60

8. *Compensated Absences*

The government records all accumulated unused vacation and sick leave benefits. Vacation pay, which may accumulate up to 240 hours, is payable upon resignation, retirement or death. Sick leave may accumulate up to 1,320 hours. Fifty percent of outstanding sick leave to a maximum of 360 hours is payable upon resignation, retirement or death.

9. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations or fund balance represent tentative management plans that are subject to change.

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NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets.

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. The details of the difference between fund balance and net assets are as follows:

Fund balances - total governmental funds	\$ 38,645,472
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	87,816,301
The focus of governmental funds is on short-term financing, assets are offset by deferred revenue and not included in fund balances.	1,667,250
Some receivable balances are not yet available and are not reported as revenue in the governmental funds.	5,092,174
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.	(28,207,460)
Internal service funds are used by management to charge the costs of certain activities to individual funds.	<u>24,223,871</u>
Net assets of government activities.	<u><u>\$ 129,237,608</u></u>

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B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. The details of the difference between the net changes in fund balances and net assets are as follows:

Net changes in fund balances - total governmental funds	\$ (3,471,112)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives.	5,709,168
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	-
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Loan/Bond Proceeds provide current financial resources to governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	913,051
Some revenues or expenditures reported in the statement of activities are not yet available or expensed and therefore are not reported as revenue or expenses in governmental funds.	(3,901,948)
Internal service funds or activities are used by management to charge the cost of certain activities to individual funds.	(1,382,871)
Change in net assets of governmental activities.	<u><u>\$ (2,133,712)</u></u>

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NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

The government's deposits and certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

The county maintains an internal cash pool for idle cash that has not been invested for the benefit of specific funds. All interest earnings from this pool are credited to the General Fund. Cash balances of the individual funds constitute a portion of the Local Government Investment Pool and are reported on the balance sheet as Cash and Cash Equivalents or Investments depending on the maturity of the underlying investments. In addition, certain investments are held separately by several county funds and reported accordingly.

As of December 31, 2009, the government had the following investments:

	<u>Carrying Value</u>	<u>Market Value</u>
U.S. Government Securities	34,852,737	35,455,888
Municipal Bonds	<u>5,590,825</u>	<u>5,671,509</u>
Total Investments Subject to Credit Risk Classification	40,443,562	41,127,397
Investments Not Subject to Credit Risk Classification		
State Investment Pool	68,024,747	68,024,747
CD's	<u>140,500</u>	<u>140,500</u>
Total Investments	<u><u>108,608,808</u></u>	<u><u>109,292,644</u></u>

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. The difference between the carrying value and market value is the unrealized gain (loss) on investments.

Interest Rate Risk

In accordance with its investment policy, the county manages its exposure to declines in fair values by limiting the maximum maturity of an individual investment in its investment portfolio to less than sixty months.

Credit Risk

Washington State statutes and county investment policy authorize the county to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers acceptances, primary certificates of deposit issued by qualified public depositories, the state treasurer's Local Government Investment Pool (LGIP), municipal bonds issued by Washington State or its local governments, and repurchase agreements collateralized by any previously authorized investments. Accordingly, credit risk, if any, is extremely limited.

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NOTE 5 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed as collected and those collections requiring remittance are distributed to other jurisdictions after the end of each month.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property is established for next year's levy at 100% of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by deferred revenue. During the year, property tax revenues are recognized when collected. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The county may levy up to \$1.80 per \$1,000 of assessed valuation for general governmental services, subject to the following two limitations stated in a and b:

- a. Washington State law in RCW 84.55.010 limits the growth of regular property taxes to an inflation limit factor percent per year, after adjustments for new construction. If the assessed valuation increases by more than the limit factor percent due to revaluation, the levy rate will be decreased. Additionally, upon a finding of 'substantial need' the legislative authority of taxing district other than the state may provide for the use of a limit factor of 106% or less.
- b. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

The county is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general governmental services. The county road levy for 2009 was \$1.7502 per \$1,000 on an assessed valuation of \$5,352,106,230 or a total road tax of \$9,366,990.

The county's total regular levy for 2009 was \$1.3282 per \$1,000 on an assessed valuation of \$7,435,245,318 for a total regular tax of \$9,875,498. The components of the regular levy are:

	Levy	Tax
General Fund	1.2882	\$ 9,578,145
Veterans Relief	0.0162	120,660
Mental Health	0.0238	176,693
Totals	1.3282	\$ 9,875,498

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NOTE 6 – CAPITAL ASSETS

A. Capital Assets

Capital assets activity for the year ended December 31, 2009 was as follows:

GOVERNMENTAL TYPE ACTIVITIES	Beginning Balance			Ending Balance
	01/01/2009	Increases	Decreases	12/31/2009
Capital Assets, not being depreciated:				
Land	\$ 3,843,361	\$ 420,545	\$ 140,428	\$ 4,123,478
Construction in Progress *	12,644,604	7,342,795	6,365,901	13,621,498
Total Capital Assets, not being depreciated	16,487,965	7,763,340	6,506,329	17,744,976
Capital Assets being depreciated:				
Buildings	59,904,694	3,461,070	483,375	62,882,389
Improvements other than buildings	3,433,453	17,800	-	3,451,253
Machinery & Equipment	20,968,786	1,415,799	1,573,355	20,811,230
Infrastructure	71,747,521	1,089,483	1	72,837,003
Total Capital Assets, being depreciated	156,054,454	5,984,152	2,056,731	159,981,875
Less Accumulated Depreciation for:				
Buildings	21,160,413	1,140,346	67,433	22,233,326
Improvements other than buildings	1,836,030	190,064	-	2,026,094
Machinery & Equipment	13,820,579	1,290,137	1,497,019	13,613,697
Infrastructure	40,971,352	2,060,507	-	43,031,859
Total Accumulated Depreciation	77,788,374	4,681,054	1,564,452	80,904,976
Total Capital Assets being depreciated, net	78,266,080	1,303,098	492,279	79,076,899
Governmental Type Activities Capital Assets, net	\$ 94,754,045	\$ 9,066,438	\$ 6,998,608	\$ 96,821,875

Beginning Balances may be adjusted due to rounding.

*Construction in Process includes \$13,364,002 of Public Works infrastructure projects included in the Six Year Transportation Improvement Plan, \$217,801 in feasibility studies for possible construction projects, and \$39,695 in construction projects currently in progress.

The Severns building and land was sold in 2009 resulting in a loss on sale of capital asset of \$177,473.

Depreciation Expense was charged to functions as follows:

General Government Services	\$ 405,374
Security of Person and Property	749,963
Physical Environment	127,971
Transportation	2,064,830
Economic Environment	46,070
Mental and Physical Health	5,380
Culture and Recreation	82,930
	<u>\$ 3,482,518</u>

In addition, depreciation on capital assets held by by the County's internal service funds is charged to the various functions based upon their usage of the assets.

1,182,961

Total Governmental Activities Depreciation Expense

\$ 4,665,479

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BUSINESS TYPE ACTIVITIES	Beginning Balance 01/01/2009	Increases	Decreases	Ending Balance 12/31/2009
Capital Assets, not being depreciated:				
Land	\$ 177,889	\$ -	\$ -	\$ 177,889
Construction in Progress*	738,514	165,143	750,431	153,226
Total Capital Assets, not being depreciated	916,403	165,143	750,431	331,115
Capital Assets being depreciated:				
Buildings	1,346,989	-	106,017	1,240,972
Improvements other than buildings	2,158,378	802,377	6,921	2,953,834
Machinery & Equipment	482,501	32,483	8,864	506,120
Total Capital Assets, being depreciated	3,987,868	834,860	121,802	4,700,926
Less Accumulated Depreciation for:				
Buildings	846,035	60,969	72,768	834,236
Improvements other than buildings	589,042	110,620	6,186	693,476
Machinery & Equipment	196,424	40,392	8,864	227,952
Total Accumulated Depreciation	1,631,501	211,981	87,818	1,755,664
Total Capital Asses being depreciated, net	2,356,367	622,879	33,984	2,945,262
Business Type Activities Capital Assets, net	\$ 3,272,770	\$ 788,022	\$ 784,415	\$ 3,276,377

*Construction in Progress includes \$32,068 for the South County Airport improvement project, \$97,364 for the Packwood Airport improvement project, and \$23,794 for the Winlock Utility feasibility study.

The Solid Waste Utility demolished six off-site drop boxes resulting in a Loss on Disposal of Capital Assets.

Depreciation Expense was charged to functions as follows:

Solid Waste	\$ 102,743
Airport	109,237
Total	<u>\$ 211,980</u>

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NOTE 7 – PENSION PLANS

Substantially all county full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer defined benefit public employee retirement plans and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description: PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit plan with a defined contribution.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 members are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by

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three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index). The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 received reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age of 65, or at age 55 with at least 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM). Justices and judges in PERS Plan 1 and 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5% multiplier. The benefit would be capped at 75% percent of AFC. Judges in PERS Plan 3 could elect a 1.6% of pay per year of service benefit, capped at 37.5% of average compensation.

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election, be subject to the benefit cap of 75% of AFC, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who have not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

NOTES TO FINANCIAL STATEMENTS

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There are 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees & Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled To But Not	27,267
Active Plan Member Vested	105,212
Active Plan Members Nonvested	56,456
Total	262,057

Funding Policy: Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 % for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2009 were:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.9%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%

** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.5% for Plan 1 and 3.90% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum to based on rated selected by the PERS 3 member.

NOTES TO FINANCIAL STATEMENTS*December 31, 2009*

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency *	7.81%	7.81%	7.81%**
Employer-Local Govt.*	5.31%	5.31%	5.31%**
Employee-State Agency	9.76%	7.25%	7.5%***
Employee-Local Govt.	12.26%	9.75%	7.5%***

* The employer rates include the employer administrative expense fee currently set at

** Plan 3 defined benefit portion only.

*** Minimum rate.

Both county and the employees made the required contributions. The county's required contributions for the years ended December 31, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	\$ 148,454	\$ 1,529,722	\$ 123,018
2008	\$ 181,357	\$ 1,591,560	\$ 129,361
2007	\$ 147,309	\$ 1,160,628	\$ 82,265

Law Enforcement Offices' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description: LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan I members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

NOTES TO FINANCIAL STATEMENTS*December 31, 2009*

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. A cost-of-living allowance is granted (indexed to the Consumer Price Index).

LEOFF Plan 2 members are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Consumer Price Index), capped at three percent annually.

There are 375 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees & Beneficiaries Receiving Benefits	9,268
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	650
Active Plan Members Vested	13,120
Active Plan Member Nonvested	3,927
Total	26,965

Funding Policy: Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

NOTES TO FINANCIAL STATEMENTS*December 31, 2009*

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2009, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	n/a	3.38%

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for ports and universities is 8.99%

Both county and the employees made the required contributions. The county's required contributions for the years ended December 31, were:

	LEOFF Plan 1	LEOFF Plan 2
2009	\$ 12	\$ 158,972
2008	\$ 94	\$ 141,491
2007	\$ 115	\$ 136,941

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description: PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 Legislature and became effective July 1, 2006.

PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A *covered employer* is one that participates in PSERS. Covered employers include: State of Washington agencies: Department of Corrections; Department of Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington state counties; and Washington state cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job: OR
- have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; OR
- function as a limited authority Washington peace officer, as defined in RCW 10.93.020; OR
- have primary responsibility to supervise eligible members who meet the above criteria

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least ten years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3% per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Consumer Price Index), capped at 3% annually.

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2008:

Retirees & Beneficiaries Receiving Benefits	1
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	-
Active Plan Members Vested	-
Active Plan Member Nonvested	3,981
Total	3,982

Funding Policy: Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payrolls, as of December 31, 2009, were as follows:

	PSERS Plan 2
Employer*	7.85%
Employee	6.55%

*The employer rate includes an employer administrative expense fee of 0.16%.

Both Lewis County and the employees made the required contributions. The county's required contributions for the year ended December 31, were as follows:

	PSERS Plan 2
2009	\$130,293
2008	\$141,711
2007	\$92,422

NOTES TO FINANCIAL STATEMENTS

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NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (HEALTH CARE)

The County provides other post-employment benefits (OPEB) in addition to the pension benefits described in Note 7.

A. LEOFF Plan 1

Lifetime full medical coverage is provided to uniformed law enforcement officers as members of the Law Enforcement Officers and Fire Fighters Plan 1 (LEOFF 1) retirement system. A liability for the accumulated unfunded actuarially required contribution (ARC) is reported in the Statement of Net Assets. The actual medical costs are reported as expenditures in the year they are incurred.

1. Plan Description

In accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (RCW 41.26), the county provides certain lifetime health care benefits for retired full-time, fully compensated, law enforcement officers who established membership in the LEOFF 1 retirement system on or before September 30, 1977. Substantially all of the county's law enforcement officers who established membership in the LEOFF 1 retirement system may become eligible for those benefits when they reach normal retirement age. The Lewis County Sheriff's Department, in conjunction with the Lewis County Disability Board, reimburses retired LEOFF 1 law enforcement officers for reasonable medical charges as described in the LEOFF act. In 2009, 24 retirees received benefits under this act. As of December 31, 2009, there were no active LEOFF 1 officers.

2. Funding Policy

Funding for LEOFF retiree healthcare costs is provided entirely by the County as required by RCW. The County's funding policy is based upon pay-as-you-go financing requirements.

3. Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of fifteen years as of January 1, 2009. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation. The net OPEB obligation of \$766,366 is reported as a non-current liability on the Statement of Net Assets.

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	Year Ending 12/31/2009
Determination of Annual Required Contribution:	
Normal Cost at Year End	\$ -
Amortization of UAAL *	626,654
Annual Required Contribution	<u>\$ 626,654</u>
Determination of Net OPEB Obligation:	
Annual Required Contribution	\$ 626,654
Interest on Prior Year Net OPEB Obligation	-
Adjustment to ARC	-
Annual OPEB Cost	626,654
Contributions Made	(260,379)
Increase in Net OPEB Obligation	<u>\$ 366,275</u>
Net OPEB Obligation - End of Year:	
Net OPEB Obligation - Beginning of Year	\$ 377,991
Increase in Net OPEB Obligation	366,275
Net OPEB Obligation - End of Year	<u>\$ 744,266</u>

* Unfunded Actuarial Accrued Liability (UAAL)

The County's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2009 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	\$ 626,654	41.6%	\$ 744,266

4. Funded Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was \$6,729,978 and the actuarial value of the assets was \$0 resulting in a UAAL of \$6,729,978.

The cost of retiree health care benefits is recognized in the General Fund as claims are paid. For 2009, these costs totaled \$260,379 with a cost per retiree of \$10,849.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

NOTES TO FINANCIAL STATEMENTS

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5. Actuarial Methods and Assumptions

We have used the alternative measurement method permitted under GASB Statement No. 45. There were no active members to consider when determining the actuarial accrued liability.

Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the September 30, 2006 actuarial valuation report issued by the Office of the State Actuary (OSA).

Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2009 was 30 years.

During 1993 the county began setting aside funds for future post retirement health care benefit payments for the county's LEOFF 1 retired officers. The net assets available at December 31, 2009 were \$6,185,724 (\$6,107,257 investments, and \$78,467 interest receivable) which is reported in the internal service fund, Risk Management; however, the current strategy does not constitute an advance-funded approach.

B. Other County Retirees

Lewis County makes available to eligible retirees employer provided subsidies for post-employment medical insurance benefits provided through Washington Counties Insurance Fund, or Washington Teamsters Welfare Trust.

Actual participation is extremely low due likely to the economic costs of the retiree premiums. As a consequence, out of the entire population of eligible retirees there were only three retirees under the age of 65 participating at the end of 2009. Due to the immaterial nature, a liability for the accumulated unfunded actuarially required contribution has not been reported in the entity-wide and proprietary statements of net assets.

NOTE 9 - DEFERRED COMPENSATION PLAN

The county offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. Two plans are available, one with State of Washington Department of Retirement Systems Deferred Compensation Program and a second with Nationwide Retirement Solutions. The plans, available to all eligible employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Plan assets for both the State of Washington Deferred Compensation Program and Nationwide Retirement Solutions plans reside in trust held for exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, since Lewis County is no longer the owner of these assets, as of December 31, 1998, the plan assets and liabilities are no longer reported as an Agency Fund.

NOTES TO FINANCIAL STATEMENTS

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NOTE 10 - RISK MANAGEMENT

Lewis County was one of the twenty-eight members of the Washington Counties Risk Pool (“Pool”) during 2009. Other members included: Adams, Benton, Chelan, Clallam and Clark, Columbia, Cowlitz, Douglas and Franklin, Garfield, Grays Harbor, Island and Jefferson, Kitsap, Kittitas, and Mason, Okanogan, Pacific, Pend Oreille and San Juan, Skagit, Skamania, Spokane and Thurston, Walla Walla, Whatcom and Yakima Counties. Klickitat and Whitman Counties were former Pool members, but terminated their memberships effective October 2002 and 2003 respectively.

The Pool was formed August 18, 1988 when several Washington counties signed an Interlocal (Cooperative) Agreement. It was established to provide its member counties with “joint” programs and services including self-insurance, purchasing of insurance, and contracting for or hiring of personnel to provide administrative services, claims handling and risk management. The Pool operates under Washington’s “pooling” laws, more specifically Chapters 48.62 RCW and 82.60 WAC and implemented via Chapter 39.34 RCW. It is overseen by the State Risk Manager and is subject to fiscal audits performed annually by the State Auditor.

The enabling Interlocal Agreement was amended once in 2000 to add the Membership Compact, a commitment to strengthen the Pool by helping its member counties implement and/or enhance local risk management efforts to reduce losses and support the best management of the Pool and its resources. The Compact established obligations to support these goals through three major elements membership involvement, risk control practices, and a targeted risk management program.

The Pool’s mission is: To provide comprehensive and economical risk coverage; to reduce the frequency and severity of losses; and to decrease costs incurred in the managing and litigation of claims. The Pool’s core values include: being committed to learn, understand and respond to the member counties’ insurance needs; being committed to establish working relationships with all members that identify business issues and jointly develop solutions; member counties commit to allocate necessary resources to risk management in their own operations; the Pool’s board of directors and professional staff share a commitment to manage the organization based on sound business principles, benchmarked industry standards and measurable outcomes; and being committed to continuous planning and innovation in product development and service delivery.

New members are required to pay the Pool modest admittance fees to cover the members’ share of organizational expenses and the costs to analyze their loss data and risk profile. Members contract initially to remain in the Pool for at least five years. Counties may terminate their memberships at the conclusion of any Pool fiscal year following the initial term if the county timely files its required advance written notice. Otherwise, the Interlocal Agreement is renewed automatically for another year. Even after termination, a former member remains responsible for reassessments from the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The Pool is governed by a board of directors consisting of one director (and at least one alternate director) designated by each member county. The Pool’s board of directors, made up of both elected and appointed county officials, meets three times each year with the summer meeting being the Annual Meeting. The board of directors is responsible for determining the 3rd-party liability coverage to be offered (approving the insuring agreement or coverage document), the reinsurance program to acquire, the excess insurances to be jointly purchased or offered for optional purchase, and approving the Pool’s annual operating budgets and work programs, and the member deposit assessment formulas.

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Regular oversight of the Pool's operations is furnished by an 11-person executive committee. The committee members are elected by the Pool's board of directors from its membership to staggered 3-year terms during each Annual Meeting. The committee meets several times throughout the year to approve all Pool disbursements and examine the Pool's financial health; to approve case settlements exceeding the members' deductibles by at least \$50,000 and to review all claims with incurred loss estimates exceeding \$100,000; to evaluate the Executive Director and the Pool's operations and program deliverables; and to participate in the board's standing committees (finance, personnel, risk management, and underwriting) for development or review/revision of the organization's policies and coverage documents.

The following constitute the highlights from the Pool's most recently completed Policy (Fiscal) Year (October 2008 through September 2009):

- *Operating Income* was experienced during the year of \$1.15 million, a 40% increase from FY-2008.
- *Interest Income* slipped to just \$0.22 million (-65%) due to the nearly non-existent interest rates associated with the national and worldwide recession.
- *Total Assets* grew by \$4.64 million (15%) to more than \$35.71 million. Specifically, current assets increased \$4.69 million (16%) while non-current assets decreased \$0.05 million (-4%).
- 966 cases were added to the Risk Pool's claims-related database during the year which raised the to-date (Oct. 1988 – Sep. 2009) total of third-party liability claims and lawsuits submitted by WCRP member counties to 16,470. Only 492 cases remained classified as "open" at year's end. Independent actuarial estimates suggest another 553 claims may be filed for covered occurrences from all years-to-date through September 2009.
- *Net Assets* (also referred to as *Members' Equity*) increased nearly \$1.38 million to more than \$8.16 million at September 30, 2009. \$6.35 million is classified as 'Restricted' to satisfy the Section D provisions of the WCRP Underwriting Policy that were enhanced by the Board of Directors in March 2007. Another \$1.06 million is invested in *Capital Assets* (net of debt). The remaining \$0.76 million is listed as 'Non-Restricted' and is available. The WCRP Board of Directors is the authority to decide if, how much, and when distributions of any (Non-Restricted) *Net Assets* are to be made.

Professionals from some of the most respected organizations worldwide are called upon regularly to address specific needs of the Pool. For example, independent actuarial services are furnished by PricewaterhouseCoopers, LLP; insurance brokerage and advanced loss control services are provided by Arthur J. Gallagher Risk Management Services, Inc.; coverage counsel is provided by Stafford Frey Cooper; and special claims audits are frequently performed by the Pool's insurers and re-insurers. These professionals are in addition to the many contracted and in-county counselors assigned to defend Pool cases, as well as the ongoing oversight provided by the State Risk Manager and the annual financial audits performed by the State Auditor.

Over half of the Pool's 9-person staff handles and/or manages the several hundred liability cases filed upon and submitted by the Pool's member counties each year. These claims professionals have more than eighty years combined claims-handling experience. The Pool's "open" file count remains fairly constant between 400 and 500 cases. Other staffers provide various member services including conducting risk assessments and compliance audits, coordinating numerous trainings, researching other coverages and marketing, with some simply supporting the organization's administrative needs.

Pool member counties presently acquire \$20 million (with another \$5 million optional) of joint liability coverage on a "per occurrence" basis for 3rd-party bodily injury, personal injury, property damage, errors and omissions, and advertising injury, and includes public officials' errors and omissions. Annually, members select a per occurrence deductible amount of \$10,000, \$25,000, \$50,000, \$100,000, \$250,000 or \$500,000. The initial \$10 million of coverage, less the retention (the greater of the member's deductible or \$100,000), is fully reinsured by superior-rated commercial carriers. The remaining insurance, up to \$15 million, is acquired from superior-rated commercial

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carriers as “following form” excess insurance. There are no aggregate limits to the payments made for any one member county or all member counties combined.

Property insurance, with composite limits of \$500 million for normal (“All Other Perils”) coverage and \$250 million for catastrophe coverage and participant deductibles between \$5,000 and \$50,000, was added to the Pool coverage lines a few years ago as an individual county option. Coverage is for structures, vehicles, mobile equipment, EDP equipment, and equipment breakdown, etc. Participants are responsible for their claims’ deductibles. The commercial insurers are responsible for covered losses exceeding the participant deductibles to the maximum limits of the policy. Twenty-six counties purchased this program during 2009.

Additionally, many members use the Pool’s producer (broker) services for other insurance placements, e.g. public officials bonds, and crime & fidelity, special events/concessionaires, and environmental hazards coverages.

The Washington Counties Risk Pool is a cooperative program, so there is joint liability amongst its participating members. Contingent liabilities are established when assets are not sufficient to cover liabilities. Pool member counties are required to timely submit their 3rd-party liability claims which are handled by the Pool’s staff. This includes establishing reserves for both reported and unreported covered events, as well as estimates of the undiscounted future cash payments for losses and related claims adjustment expenses. Deficits resulting from any Pool fiscal year are financed by proportional reassessments against that year’s membership. The Pool’s reassessments receivable balance at December 31, 2009 remains at zero.

The county maintains insurance against most normal hazards except for unemployment and worker's compensation, where it has elected to become partially self-insured.

Risk Management Fund: - The County established its own Risk Management fund in 1991, which is used to pay deductibles on general liability claims and unemployment claims. The county has elected to become self-insured for unemployment claims, and utilizes an independent claims management firm to review and process claims. Based on Washington Counties Risk Pool, unemployment claims management firm and county management estimates, the county's estimated liability for probable losses at December 31, 2009, which includes estimates for Incurred But Not Reported claims (IBNR) were as follows:

	2008	2009
General Liability Claims	\$ 1,400,000	\$ 1,600,000
Unemployment Claims	92,764	124,823
Total	\$ 1,492,764	\$ 1,724,823

In addition, the following shows changes in the balances of claims liabilities during the past year:

	Year Ended 12/31/2008	Year Ended 12/31/2009
Unpaid claims, beginning of fiscal year	\$ 1,493,648	\$ 1,492,764
Incurred claims	134,372	899,841
Changes in Estimates		245,000
Claim Payments	(135,256)	(912,782)
Unpaid claims, end of fiscal year	\$ 1,492,764	\$ 1,724,823

As of December 31, 2009, unrestricted cash and investments were \$3,177 and \$9,369,967, respectively, this included \$6,185,724 reserved for LEOFF 1 past retirement benefit.

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County Insurance Fund: - The County has elected to become self-insured for worker's compensation and maintains the County Insurance Fund which is used to pay related claims costs. An independent claims management firm processes claims. Based on the county's claims management firm and Washington State Department of Labor & Industries data, the county's estimated reserve for probable losses at December 31, 2009 was \$174,982:

	Year Ended 12/31/2008	Year Ended 12/31/2009
Unpaid claims, beginning of fiscal year	\$ 334,983	\$ 334,983
Incurred claims & changes in estimate	274,045	793,937
Claim Payments	(274,045)	(953,938)
Unpaid claims, end of fiscal year	\$ 334,983	\$ 174,982

The county incurred an additional pension obligation during the fiscal year. The present value of the future pension obligation as calculated by the state, \$582,577, was transferred to the Washington State Department of Labor and Industries; this satisfied the county's current obligation for the future pension payment. The two fully funded pension obligations held by the state at December 31, 2009 was \$738,738. The county has met the SIR payable under the excess coverage for the specific claim.

The county is required by Washington State Department of Labor and Industries to set aside, for protection to the Workers' Compensation Fund, a minimum of \$100,000 in cash reserves. Additionally, the county has purchased \$1 million of excess coverage insurance for workers' compensation claims, with the county's aggregate SIR of \$500,000 for the current two-year policy period. The policy has a lower SIR for individual claims, which varies with each policy year. As of December 31, 2009, cash and investments were \$1,131,741 and \$397,671 in unrestricted and restricted assets, respectively, and net assets were \$1,384,642.

Other Insurance: - The County has purchased coverage for property insurance (including computers), flood, auto and equipment physical damage, boiler, and liability for Packwood, Chehalis/Centralia, and South County Airports. For the past three fiscal years, there were no settlements that exceeded insurance coverage.

NOTES TO FINANCIAL STATEMENTS

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NOTE 11 - LONG-TERM DEBT

The County may issue general obligation and revenue bonds to finance the purchase of major capital items, the acquisition or construction of major capital facilities and other major items. The general obligation bonds have been issued for the general government and are being repaid from applicable resources. The County is also liable for notes that were entered into for various reasons stated below in the description of each note. These notes are considered obligations of the general government and are being repaid with general governmental revenue sources.

A. Disclosures About Each Significant Debt Incurred

<u>General Obligation Bonds</u>	<u>Outstanding 12/31/2009</u>
<i>\$4,925,000</i> – Issued September 2, 2009, for the purpose of defeasing, paying, redeeming, and retiring the 1999 refunded bonds. Interest is paid at 2.50% to 4.25% with annual debt service payments of \$395,188 to \$442,000 through December 1, 2024.	\$4,925,000
<i>\$3,500,000</i> – Issued in August 2007, for the benefit of the Chehalis-Centralia Airport and their ongoing capital construction projects. Interest is paid at 4.32% with annual debt service payments of \$316,206 through June 1, 2017. The Chehalis-Centralia Airport has a note payable due to the County for these payments.	\$3,029,017
<i>\$7,100,000</i> - Issued May 25, 2005, for the purpose to defease, pay, redeem and retire the 1999 refunded bonds. Interest is paid at 3.00% to 6.50% with annual debt service payments of \$506,638 to \$523,943 through December 1, 2024.	\$ 5,655,000
<i>\$12,270,000</i> - Issued February 26, 2003, for the purpose of constructing a new jail facility. Interest is paid at 3.00% to 4.75% with annual debt service payments of \$794,378 to \$838,000 through December 1, 2027.	\$9,890,000
<u>Notes Payable</u>	
<i>Washington State, Public Works Trust Fund Loan - Dept. of Community Development - \$389,125</i> - Issued April 14, 1994, for the purpose of financing extension of roads and utility services as an expansion of the Chehalis Industrial Park; whereby, the county acted as the lead agency in a cooperative project with the Port of Chehalis. All principal and interest payments made by the county are reimbursed 100% by the Port of Chehalis. Interest is paid at 1.00% on annual installments of \$23,083 to \$31,704 through July 1, 2014.	\$138,973
<i>Washington State Revolving Fund Loan - Dept. of Ecology - \$406,261</i> - Issued July 1, 1994, for the purpose of paying for costs associated with the Wallace Road sewer project. The loan agreement provides a maximum allowable loan of \$406,261, of which the County has received \$322,808. Interest is paid at 4.50% on semi-annual installments of \$12,297 through July 1, 2014.	\$31,466
Total Outstanding Debt	<u>\$23,669,456</u>

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

B. Debt Service Requirements to Maturity

Annual debt service requirements to maturity for governmental general obligation bonds are as follows:

Year Ended	Principal	Interest
2010	1,067,354	1,015,683
2011	1,145,535	935,478
2012	1,184,074	896,940
2013	1,252,985	854,609
2014	1,282,285	809,098
2015-2019	7,956,785	3,110,179
2020-2024	7,325,000	1,544,891
2025-2029	2,285,000	220,637
TOTAL	\$ 23,499,018	\$ 9,387,515

Annual debt service requirements to maturity for other outstanding debt are as follows:

Year Ended	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	27,795	1,390	6,458	1,344
2011	27,795	1,112	6,752	1,050
2012	27,795	834	7,060	743
2013	27,795	556	7,380	422
2014	27,795	278	3,815	86
TOTAL	\$ 138,975	\$ 4,170	\$ 31,465	\$ 3,645

C. Changes in Government-wide Long-Term Debt

The following is a summary of the County's Long-Term Debt transactions for the year ended December 31, 2009:

Activity:	Balance 12/31/2008	New Issues	Retirement	Balance 12/31/2009	Due Within One Year
Governmental:					
Compensated Absences	\$ 4,018,318	\$ 256,235	\$ -	\$4,274,553	\$89,286
General Obligation Bonds	24,548,533	4,925,000	5,974,515	23,499,018	1,067,354
Notes Payable	166,768	-	27,795	138,973	27,795
TOTAL	\$ 28,733,619	\$ 5,181,235	\$ 6,002,310	\$ 27,912,544	\$ 1,184,435
Business-type:					
Compensated Absences	\$ 102,706	\$16,039	\$ -	\$118,745	\$ -
Notes Payable	118,652	-	87,186	31,466	6,458
TOTAL	\$ 221,358	\$ 16,039	\$ 87,186	\$150,211	\$ 6,458

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$360,028 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the responsible fund.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

D. Assets Available for Long-Term Debt

At December 31, 2009, the county has \$13,282 available in the debt service funds. The general fund and other county funds will transfer assets as required to service the general obligation bonded debt. Other debt is serviced by assets within the responsible fund.

E. Legal Debt Margin

State law sets the county's limitation on external long-term debt as follows:

Purpose of Indebtedness	Remaining Capacity
General Gov't (no vote required)	\$ 90,161,538
General Gov't (3/5 majority vote)	\$ 164,513,991

F. Current Refunding

The County issued \$4.925 million of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payment of \$6.658 million of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This refunding was undertaken to reduce the total debt service payments over the next fifteen years by \$894,962 and resulted in an economic gain of \$667,053.

G. Prior Years' Debt Defeasance

In prior years, the County defeased two bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government wide financial statements. As of December 31, 2009, the amount of defeased debt outstanding but removed from the Solid Waste Disposal District amounted to \$4,165,000 and the Governmental Long Term Debt amounted to \$8,010,000.

H. Arbitrage

Governments may incur a liability to the federal government for arbitrage rebate if they earn more interest on the reinvested proceeds of tax-exempt debt than they incur on the underlying debt itself. The County has a review of potential arbitrage rebate conducted every five years on each outstanding bond issue. Based on the results of these periodic reviews, there is no arbitrage rebate on any of the County's outstanding debt issue.

NOTE 12 - JUDGMENTS AND CONTINGENCIES

The county has recorded in its financial statements all material liabilities, including an estimate for situations, which are not yet resolved, but where, based on available information, management believes it is probable that the county will have to make payment. In the opinion of management, the county's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

The county participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representative. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowances, if any, will be immaterial.

NOTE 13 - RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$397,671 of restricted net assets by enabling legislation.

NOTE 14 - INTERFUND BALANCES AND TRANSFERS

A. Interfund Receivables and Payables

Activity between funds for goods or services occurs throughout the year. The following table depicts interfund receivable and payable balances as of December 31, 2009:

Fund Types	Due to Other Funds	Due From Other Funds
General Fund	\$ 67,609	\$ 2,796
Roads	294,144	10,870
Capital Facilities Fund	7,899	-
Nonmajor governmental funds	55,333	80,583
SW Disposal District	201,039	-
Nonmajor business-type funds	28,653	218,539
Internal Service	12,210	354,099
TOTAL	\$ 666,887	\$ 666,887

B. Interfund Loans

Periodically, there is a business need to authorize loans between funds, usually for cash flow requirements for the smaller funds. The following table displays interfund loan activity during 2009:

<i>Interfund Loans</i>					
Borrowing Fund	Lending Fund	Balance 01/01/09	New Loans	Payments Made	Balance 12/31/09
South County Airport	General	\$ 3,000	\$ -	\$ 3,000	\$ -
Packwood Airport	General	-	56,243	-	56,243
Flood Authority	General	55,000	95,000		150,000
TOTAL		\$ 58,000	\$ 151,243	\$ 3,000	\$ 206,243

NOTES TO FINANCIAL STATEMENTS*December 31, 2009***C. Interfund Transfers**

On an annual basis interfund transfers are used to move resources between funds for authorized purposes. The following table displays interfund transfers during 2009:

<i>Operating Transfers</i>		
<i>Fund Types</i>	IN	OUT
<i>General Fund</i>	59,226	3,524,608
<i>Roads</i>	455	15,404
<i>Capital Facilities Plan</i>	163,885	1,339,753
<i>Nonmajor governmental funds</i>	2,474,356	75,681
<i>Debt Services</i>	1,820,153	
<i>Capital Project</i>	-	4,253
<i>Enterprise</i>	100,500	
<i>Internal Service</i>	341,124	
TOTAL	4,959,699	4,959,699

NOTE 15 – JOINT VENTURE

Lewis County was jointly participating with the city of Centralia and the city of Chehalis in the Chehalis-Centralia Airport. The joint venture is organized under RCW 14.08.200. On August 24, 2005 by joint resolution of the cities of Centralia and Chehalis and Lewis County, the action authorized the removal of the City of Centralia from the Chehalis-Centralia airport joint operating agreement and the two positions on the governing board held by representatives of the city of Centralia were eliminated.

Chehalis-Centralia Airport is jointly governed by an appointed six member board of which Lewis County is a member. Currently three airport board members are appointed by Lewis County and three members are appointed by the City of Chehalis. The appointment of the seventh member is alternated between the two entities. Lewis County has a one-half equity interest in the Chehalis-Centralia Airport. The Chehalis-Centralia Airport prepares its financial statements on a cash basis. The ending balance of cash and investments at as of December 31, 2009 was \$1,482,140.

Debt related to the Chehalis-Centralia Airport consists of a bond issued by Lewis County in 2007 on behalf of the Chehalis-Centralia Airport in the amount of \$3,500,000. The Chehalis-Centralia Airport makes the payments to Lewis County. The balance as of December 31, 2009 was \$3,029,017.

Financial statements for the Chehalis-Centralia Airport can be obtained from its administrator at the Airport, PO Box 1344, Chehalis, WA 98532.

NOTE 16 - CLOSURE AND POSTCLOSURE CARE COST

On August 28, 1990, the Centralia Landfill was listed on the Washington State Hazardous Sites List pursuant to Chapter 70, 105D RCW, the Model Toxics Control Act, and WAC 173-340-330, and on August 30, 1990, the Landfill was added to the Federal National Priorities List (NPL) pursuant to 42 U.S.C. Section 9605 of the Comprehensive Environment Response, Compensation, and Liability Act (CERCLA or Superfund). As a result of these listings, it was necessary for the Landfill to be remediated pursuant to the requirements of these laws.

NOTES TO FINANCIAL STATEMENTS

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On May 1, 1990 an Interlocal agreement was made between the various municipalities within Lewis County forming the Centralia Landfill Closure Group (CLCG) regarding the closure of the Centralia landfill. The municipalities, by the agreement, commit to take all action reasonably necessary to comply with the Environmental Laws and to share the costs of such compliance. Lewis County's (unincorporated portion) potential liability represents 48.85% of the closure costs.

In addition to the municipalities, other PLPs (Potentially Liable Parties) and insurance carriers for the municipalities have been identified. The Washington State Department of Ecology (DOE) has evaluated information related to each PLP and found that credible evidence existed to notify two firms of their potential liability. Insurance carriers for the municipalities have been involved at various levels of the closure process, assisting in the duty to defend and to cover costs of the closure. As of December 1997, \$3,430,481 had been recovered from insurance carriers.

During 1993, Lewis County concluded the process of forming a countywide Solid Waste Disposal District. Reportable financial activity of the district began in the spring of 1994, then, the district assumed the local government's share of the liability for the Centralia Landfill closure. The maximum liability to the Lewis County Solid Waste Disposal District as well as all signatory municipalities to the landfill closure interlocal agreement is capped at \$13 million.

Also in 1994, the Lewis County Solid Waste Disposal District #1 forwarded the sum of \$8.7 million to the city of Centralia to fulfill the assumption of the local government's share of the liability for the Centralia Landfill closure. Therefore, the potential remaining obligation to the Disposal District as well as all signing municipalities is \$4.3 million with Lewis County either alone or through its Disposal District, responsible for 48.85% of that \$4.3 million (\$2.1 million). However, current estimates indicate that there may be no future costs to Lewis County; accordingly, no additional liabilities for closure have been recorded in the Lewis County Solid Waste Disposal District fund.

Since the closure project is currently included on the National Priorities List pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" and "Superfund"), there is potential financial assistance available through the State of Washington Department of Ecology for a percentage (historically 75%) of the closure costs. As of December 1997, the CLCG had received a total of \$7,909,813 from 1991 through 1997 in grant proceeds from the Department of Ecology. Current assessments indicate that future Ecology participation in closure activities will be in the area of 40% participation due to declining resources at the state level.

Interim action has been completed, pursuant to an initial consent decree, to provide a final cover over closed portions of the landfill. Completion of this project will reduce ultimate closure costs. The estimated total cost for the interim action was over \$9.6 million, with financial assistance from the Washington State DOE. Lewis County's share is represented by 48.85% of the local cost. The sale of the bonds in 1994 partially offset those costs.

Within the landfill closure account managed by the CLCG, there have been adequate resources (factoring the \$8.7 million forwarded to the CLCG by the Disposal District) to cover costs associated with remedial work undertaken thus far. A transfer of \$270,365 from the Solid Waste Disposal District to the CLCG was required during the year. At the end of 2009, approximately \$125,779 remained in the City of Centralia Landfill Operating Trust Account, administered by the CLCG.

Significant decreases in the fund were the result of expenditures for post closure mitigation and the return of \$8.7 million to Lewis County Solid Waste Disposal District #1. Increases to the landfill closure fund were the result of changes in known circumstances. The liability will continue to change as expenditures occur and as known

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

circumstances occur due to the engineering determinations, inflation, deflation, technology or applicable laws or regulations and the completion of Remedial Investigation, Feasibility Study, and Closure Action Plan (RI/FS/CAP) negotiations with the Department of Ecology.

The CLCG, PLPs and insurance carriers have negotiated for the second consent decree with the Washington State DOE. A Remedial Investigation and Feasibility Study (RI/FS) has begun. Once completed, the results will be used to formulate the Closure Action Plan (CAP) which was completed in 2001. This plan will be approved by the DOE. It is possible that the landfill will be de-listed from CERCLA at the completion of the RI/FS because of pressure on the Environmental Protection Agency from the United States Congress, but that possibility is remote.

In April 1997, the Centralia Landfill Closure Group forwarded \$8.7 million to the Lewis County Solid Waste Disposal District, as these funds were no longer needed for landfill closure costs. On May 6, 1997, this money, along with other funds set aside in the Solid Waste Disposal District fund as debt service reserves, were utilized to defease the \$9,485,000 of the District's 1994 Revenue Bonds. The District acquired and deposited U.S. Government obligations irrevocably in escrow with First Trust National Association, Seattle, Washington, in amounts sufficient to pay the principal of and interest on the 1994 bonds through the final date of maturity, November 1, 2015. The payment of the debt service on the 1994 Bonds will be made solely from the U.S. Government Obligations and no longer constitutes a lien and charge on the revenues of the District.

The total costs to Lewis County Solid Waste Disposal District in the future, and the period of time over which such costs will be incurred are reasonably predictable at this time.

NOTE 17 - OTHER DISCLOSURES

A. Changes to Funds

New funds established in 2009:

Fund 209: 2009 Debt Service Fund

Existing funds dissolved in 2009:

Fund 303: 2003 Construction Fund

B. Accounting and Reporting Changes

None

C. Subsequent Events

The County is unaware of the occurrence of any subsequent events that would be material to the County's financial statements for the year ending December 31, 2009.